

Committee	Dated:
Finance Committee	21 July 2015
Subject: City Re Limited – Performance Monitoring	Public
Report of: The Chamberlain	For Information

Summary

The City established a Reinsurance Captive Insurance Company (the Captive), City Re Limited, on 24 December 2010, a separate legal structure which allows the City to share in the risks and benefits of insuring its property portfolio, whilst controlling the financial exposure. In the event of an 'average' year's claims experience it was anticipated that the Captive would achieve an underwriting profit of £600,000.

This report provides information on the claims experience and Underwriting Profit and Loss Account for the fourth accounting period of the Captive, from 1 April 2014 to 31 March 2015, and reveals that a retained profit of £830,013 was achieved.

At its meeting on 16 June 2015, the Board of City Re Limited declared this sum as a dividend for the 2014/15 financial year and this amount has already been paid over to the City. The Company holds substantial claims reserves for the 2014/15 accounting period and also an 'Incurred but not yet Reported' reserve of £250,000.

The report also provides information on the governance arrangements for the captive and of various matters discussed at the last Board meeting on 16 June 2015, including the adoption of the accounts, the dividend policy with regard to the retained profit and the receipt of the auditors' Management Letter and Compliance Reports. The auditors' Management Letter and the signed, audited Directors' Report and Financial Statements are attached to this report.

Recommendation

Members are asked to note this report.

Main Report

Background

1. The Finance Committee, at its meeting on 26 October 2010, approved the principle of establishing a Reinsurance Captive Insurance Company (the Captive), and on 24 December 2010 such an entity, City Re Limited, was created, based in Guernsey, where the optimum managerial and administrative expertise is located to operate such a company.

- Members may recall that the Captive provides a separate legal structure which allows the City to share in the risks and benefits of insuring its property portfolio, whilst controlling the financial exposure. Effectively, the Captive allows the City to participate in its own insurance placement and to capture underwriting profits with a known capped downside financial risk.

Main Characteristics of the Captive

- The main elements of the Captive are set out below:
 - The City Captive covers the first £250,000 of each and every property claim, effectively leaving the main insurers, RSA and Aviva, to cover any greater losses.
 - The City Captive receives a reinsurance premium of approximately £1.7m per annum from RSA and Aviva.
 - The maximum payable (downside) by the City Captive is limited to £250,000 per annum above the reinsurance premium received from RSA and Aviva.
 - Based on an actuarial analysis (undertaken in 2010) of the last 10 years' claims experience of the City, the value of claims likely to be met by the Captive in an average year would be £1.1m.
 - The Captive does not cover any terrorism risk which continues to be covered by RSA and Aviva and re-insured with Pool Re.
- The potential range of financial implications for the City, based on the actuarial analysis of past claims experience at the time the company was set up is summarised below:

	Worst Case £000	Average Year £000	'Good Year' £000
Reinsurance Premium received by Captive Net of Charge Payable to RSA	(1,660)	(1,660)	(1,660)
Claims Payable by Captive	1,910	1,060	860
(Profit)/Loss	250	(600)	(800)

- Based on these assumptions and previous years' experience, a projected saving of £750,000 was included in the City's financial plans for 2014/15.

Financial Performance for period 1 April 2014 to 31 March 2015

- The audited Financial Statements for the fourth trading period of the Captive were submitted for approval and signing to a meeting of the Board of Directors held in Guernsey on 16 June 2015, and these are attached to this report. The meeting was attended by the City of London Corporation's Directors on the City Re Board, i.e. the Chairman of the Finance Committee and the Chamberlain.
- For the accounting period, City Re Limited achieved a retained profit of £830,013. The accounts also include an 'Incurred But Not Reported' (IBNR) loss reserve of £250,000 which is equal to one maximum loss applicable to the 2014/15 underwriting period that commenced on 25 December 2014. This is in line with the company's reserves policy which is that "for each annual

underwriting period, an IBNR equal to one maximum loss of £250,000 is established. Consideration will be given to release the IBNR by the close of the following accounting period”.

8. The Board of Directors declared a dividend of £830,013 in respect of the 2014/15 financial year and this sum has been paid over to the City. The dividends received in the previous financial years are set out below:

2013/14	£92,569
2012/13	£810,883
15 months to 31/03/12	£997,747

The dividend for 2013/14 was significantly less than in previous years due to one significant claim, a further potential significant claim that has been settled and an increase in water damage claims. At the time the Directors believe that 2013/14 was an unusual year and expected the claims experience to return to the level of previous years.

Auditor’s Management Letter and Company Compliance

9. At the March 2015 Board meeting it was agreed that quotes should be sought for the audit of the Company’s accounts from three firms. Moore Stephens were subsequently appointed. At their meeting on 16 June the Board of Directors received a presentation from Moore Stephens. They noted the Management Letter which stated that there were no issues arising during the course of their audit that required being brought to the attention of the Board.
10. The Board of Directors and external auditors also confirmed that there was no objection to the audited Directors’ Report and Financial Statements being in the public domain, and these will be made available as a distinct item on the City of London Corporation’s website following this Finance Committee Meeting.
11. In addition, the Board received a Compliance Monitoring Report from Active Compliance Services Limited which showed an overall rating of “satisfactory”, which is the highest rating available.

Conclusion

12. At the 16 June Board meeting the directors of City Re Limited declared a dividend of £830,013 for the 2014/15 financial year and this amount has already been paid over to the City.

Appendices

- Appendix 1 – Auditors’ Management Letter and Accounts to 31 March 2015

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